

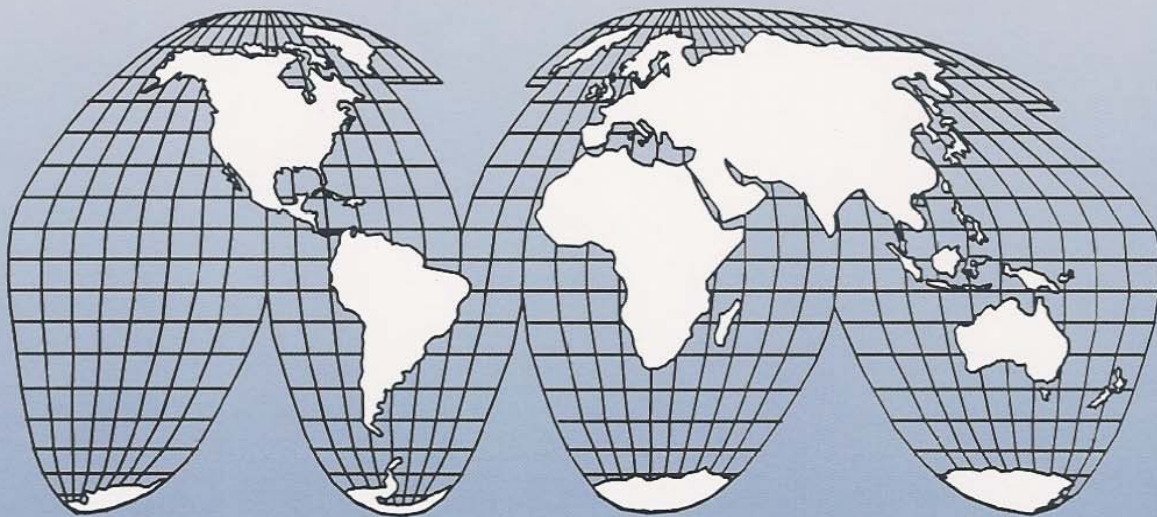
USAID

OFFICE OF INSPECTOR GENERAL

Audit of USAID-Financed Public Law 480 Title II Food Aid Activities in India

Audit Report No. 5-386-02-003-P

August 29, 2002



Manila, Philippines



Regional Inspector General, Manila

August 29, 2002

MEMORANDUM

FOR: Mission Director, USAID/India, Walter E. North

FROM: RIG/Manila, Bruce N. Boyer /s/

SUBJECT: Audit of USAID-Financed Public Law 480 Title II Food Aid Activities in India, Report No. 5-386-02-003-P

This is our final report on the subject audit. We reviewed your comments to the draft report, made some revisions based on them, and included the comments (without attachments) in their entirety as Appendix II.

This report includes five recommendations to be addressed by USAID/India. Based on your comments to the draft report, we consider management decisions to have been made on four of the five recommendations, and Recommendation Nos. 1, 4 and 5 are considered closed upon issuance of this report. Recommendation No. 3 may be closed when the Mission provides evidence to the Bureau for Management, Office of Management Planning and Innovation that it has implemented the necessary actions. A management decision for Recommendation No. 2 has not yet been reached.

I appreciate the cooperation and courtesies extended to my staff during the audit.

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Summary of Results

The Regional Inspector General, Manila, audited food aid to India to determine whether USAID/India, together with its partners, monitored such food aid to help ensure that it reached the intended beneficiaries.

USAID/India, together with its partners, generally monitored food aid to help ensure that it reached the intended beneficiaries. However, the audit identified certain opportunities to improve monitoring of food aid (see pages 6-10). In addition, the Mission needs to resolve with the Government of India (GOI) the issue of the use of genetically modified food – an issue which has resulted in some food aid being detained in port warehouses for over six months, with storage and other charges in excess of \$250,000 (see pages 10-12).

Background

According to USAID documents, one-third of India's one billion people lack adequate food. More than half of India's young children (73 million) are underweight. One of every eleven children dies before the age of five. In addition, chronic malnutrition is high. These are a few of the challenges being addressed by Public Law 480 (P. L. 480) Title II food assistance in India.

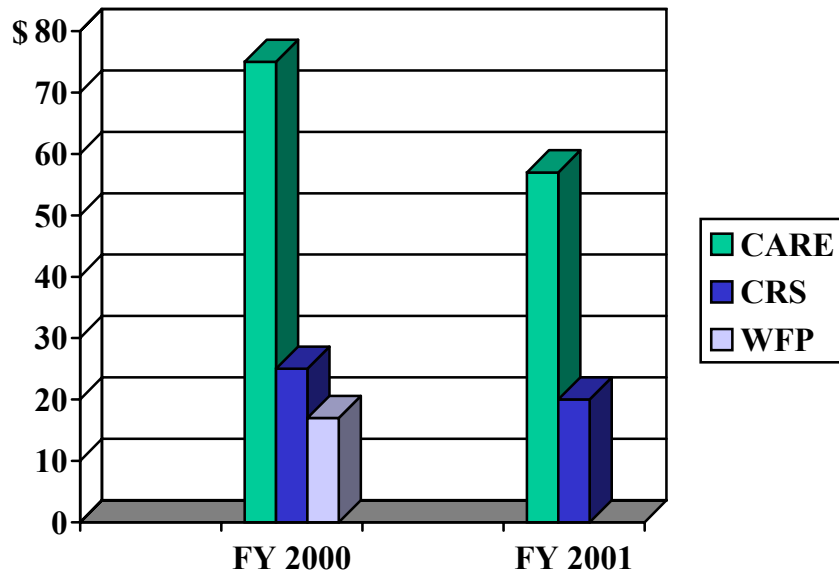
Public Law 480 is the Agricultural Trade Development and Assistance Act of 1954 as amended. The P. L. 480 food aid program is comprised of three "titles," each of which has different objectives and provides agricultural assistance to countries at different levels of economic development. Title II programs are managed by USAID. In India these programs are being implemented by two major cooperating sponsors: the Cooperative for Assistance and Relief Everywhere (CARE) and Catholic Relief Services (CRS), two U. S. Private Voluntary Organizations. These programs in India include development programs, emergency programs, and assistance to the World Food Program, a United Nations Agency. The audit covered the development and emergency programs but not Title II commodities used by The World Food Program. (See acronyms used in this report, and acknowledgements, at appendices V and VII respectively.)

USAID/India uses Title II food aid along with other sources of funding under its "Improved Child Survival and Nutrition in Selected Areas of India" strategic objective. The purpose of this strategic objective is to reduce the high levels of child mortality and malnutrition. Title II food assistance to India consists of soy oil, corn soy blend and bulgur wheat, assistance valued at approximately \$117 million in fiscal year 2000 and \$78 million in fiscal year 2001 (see graph below).¹

¹ Information was provided by USAID and is unaudited.

Title II Food Aid Funding in India

(in millions of dollars)



This graph illustrates the funding used by CARE, Catholic Relief Services and the World Food Program in fiscal years 2000 and 2001 to operate the Title II Program in India. (See additional discussion of CARE and CRS at appendices III and VI.) These funds total \$117 million and \$78 million, respectively, for the two years. (amounts unaudited)

Audit Objective

As part of its fiscal year 2002 audit plan, the Regional Inspector General, Manila, audited USAID/India's Public Law 480 Title II food activities to answer the following audit objective:

- Did USAID/India, together with its partners, monitor the food aid to help ensure that it reached the intended beneficiaries?

Appendix I contains a complete discussion of the scope and methodology for this audit.

Audit Findings

Did USAID/India, together with its partners, monitor the food aid to help ensure that it reached the intended beneficiaries?

USAID/India, together with its partners, generally monitored food aid to help ensure that it reached intended beneficiaries. However, the audit identified certain opportunities to improve monitoring. In addition, the Mission needs to resolve with the Government of India the issue of the use of genetically modified Title II food – an issue that has resulted in some food aid being detained in port warehouses and in significant storage and other charges.

Testing at a large number of sites managed by CARE and Catholic Relief Services (CRS) indicated that food aid was generally monitored according to guidance. In order to help ensure that food aid reached intended beneficiaries, the Mission team conducted feeding site visits, reviewing about 50 CARE sites and about 20 CRS sites annually. Team members wrote reports on their visits, documenting exceptions and making recommendations. In addition, CARE and CRS prepared required commodity monitoring plans for food aid and established their own monitoring systems. Further, CARE and CRS generally ensured proper storage of commodities and performed periodic physical counts of commodities. CARE and CRS submitted required periodic reports (e.g., commodity status, recipient status, and commodity loss reports). Moreover, both cooperating sponsors regularly performed field reviews of storage and distribution sites to provide oversight of program operations.



This photo shows a sign at a feeding center that distributes Title II foods in India. The sign, written in Hindi and English, states that the foods are donated by the people of America. (Piparia Singipur, Uttar Pradesh, India, March 2002)

However, monitoring can still be improved, especially in the areas of food storage and record keeping. In addition, the Mission needs to resolve with the Government of India the issue of genetically modified Title II food. These issues are discussed below.

Need to Strengthen Monitoring in the Areas of Food Storage and Record Keeping

Audit fieldwork at CARE and CRS identified some opportunities to strengthen the monitoring of the food aid program. USAID Regulation 11 and the CARE and CRS operating manuals discuss policies and procedures for commodity storage and record keeping. The exceptions noted during the audit were typically caused by employees' lack of familiarity with the policies and procedures, employees' limited education levels, and difficulties with computer programs. These exceptions can result in loss of commodities and inaccurate reporting regarding commodities and recipients.

Testing at CARE and CRS identified some opportunities to strengthen the monitoring of the food aid program, particularly regarding commodity storage and record keeping. Of 19 storage sites visited, 5 had one or more commodity

storage exceptions. For example, commodities were sometimes stored on plastic sheets on dirt floors, rather than on pallets. In addition, of the 25 sites visited that maintain food aid records, 15 sites had one or more exceptions regarding record keeping. Examples of record keeping problems included beneficiary feeding registers with inaccurate beneficiary ages, and regional accounting reports that contained information that did not agree with supporting documents at the local distribution sites.

The following examples will give the reader an indication of the types and variety of exceptions found – some of which go beyond storage and record keeping problems.

- One of the three CARE state offices visited was unable to provide a complete list of its feeding sites – records which would be required in order to report on food distribution per USAID’s Regulation 11.
- One of the two CARE feeding sites that repackaged take-home rations included an instructional insert in the local language which did not mention that the food was donated by the United States – a Regulation 11 requirement.
- One of the four CRS storage facilities visited had bags of bulgur wheat stored on plastic sheeting on a dirt floor; the CRS Counterpart Manual requires brick or concrete flooring and wooden pallets.
- One of the seven feeding sites visited was using oil that had been contaminated by ants; the CARE Operating Manual discusses storage and handling and offers advice on how to deal with insect infestations.

(See Appendix IV for a complete list of all the exceptions encountered and the related criteria.)



This photo shows an auditor testing inventory records for bags of corn soy blend (Vishakhapatnam, India, March 2002)

In general, cooperating sponsors are required to ensure that adequate storage facilities will be available in the recipient country to prevent waste.² In addition, cooperating sponsors must also maintain documents and records to accurately reflect all transactions pertaining to receipt, storage, distribution and sale of food.³

The exceptions encountered relating to storage were caused in some cases by operating partners' lack of familiarity with CRS regulations for food aid. For example, some operating partners were not aware that the CRS operating manual requires wooden floors or pallets in storage areas, and that an operating partner should notify the counterpart of any planned absence and appoint another person to manage the storeroom in his absence.

The errors in records were caused by the rudimentary education of employees and difficulties with computer systems. For example, discussions with CARE officials in the field indicated that many of the Government of India's (GOI's) village workers, who are responsible for storing the commodities and maintaining the registers, have limited education and could benefit from

² 22 CFR Part 211 (USAID Regulation 11), Section 211.5, Obligations of the Cooperating Sponsor

³ 22 CFR Part 211 (USAID Regulation 11), Section 211.10, Records and Reporting Requirements

additional training. The village workers are compensated with an honorarium from GOI, which is less than a salary and does not attract the most qualified employees. In two cases an apparent CRS computer glitch caused feeding and inventory data to be reported as zero when this was not the case.

The exceptions observed with regard to storage and record keeping were also caused by weaknesses in the food aid monitoring system used by USAID/India. USAID/India's Office of Social Development manages and monitors the Title II Program. The office consists of a Director (a United States Direct Hire employee), a Deputy Director and three project specialists (all of whom are Foreign Service Nationals). Of the three project specialists, one works exclusively with CRS, and the other two positions are dedicated to CARE. Although the USAID/India food aid monitoring group consists of three positions, one position has been vacant for approximately 16 months. This leaves only one staff member to cover 100,000 CARE feeding sites. At this rate, the one staff member would have to cover about 270 sites per day in order to visit each CARE site once a year. Although it is not anticipated that all sites be visited every year, it is clear that at the very least the vacant position should be filled – especially in light of the exceptions noted in the audit. The Mission agrees, and is now in the process of filling the vacant position.

Inadequate storage and record keeping can have potential—as well as very real—effects. The effect of inadequate storage is the possible waste or misappropriation of Title II commodities through pilferage, spoilage or insect infestation. The effect of inadequate record keeping is inaccurate reporting regarding commodities and recipients, including recipient eligibility for program benefits. For example, eligibility requirements for child feeding programs are based on beneficiary age, and there were numerous instances where registers included inaccurate ages of beneficiaries.

Recommendation No. 1: We recommend that USAID/India fill the vacant staff position in USAID's Office of Social Development.

Recommendation No. 2: We recommend that USAID/India require action plans from CARE and Catholic Relief Services to correct the specific exceptions and weaknesses noted during our fieldwork (as detailed in Appendix IV).

Recommendation No. 3: We recommend that USAID/India work with CARE to develop training programs for its village workers.

Need to Resolve with the Government of India the Issue of Genetically Modified Title II Food

Audit fieldwork also identified shipments of Title II commodities that were detained by Government of India health officials due to concerns about genetic modification. USAID Regulation 11 discusses the responsibilities of cooperating partners regarding importation of Title II commodities. However, the Mission and its food aid partners had not yet secured the required permission from the Government of India to import genetically modified foods. Therefore, the Government of India detained food shipments, resulting in additional program expenses for commodity storage and food outages at numerous feeding sites.

Audit fieldwork identified shipments of Title II food that were detained at the Calcutta port by health officials due to a Government of India concern about genetically modified food. Some crops – including those contained in certain Title II food aid – are genetically modified to make them resistant to herbicides or pests. The Government of India has instituted regulations that have had the effect of restraining the import of genetically modified food. Although cooperating sponsors are responsible for promptly obtaining all import permits and approvals required for importing Title II commodities, they have had difficulty in obtaining timely approvals. The Mission hopes to obtain a permanent waiver from the regulations, but import approvals are currently issued only on a case-by-case basis.

Title II commodities detained at port have caused logistical problems in the food distribution system and additional expense for demurrage, storage and insurance. Audit procedures identified a 700 metric ton shipment of soy oil for CRS, valued at approximately \$580,000, that was detained in the Calcutta port warehouse from June 2001 to January 2002 (normally food moves through this warehouse in less than fifteen days). The Port Transit Shed Manager stated that the GOI Port Health Officer would not issue a certificate to allow the oil to pass customs, due to a concern about genetic modification. This shipment had occupied more than half the floor space in the warehouse. In addition, CRS had seven other oil shipments, totaling 1,426 metric tons, detained for approximately six months each, between April 2001 and April 2002. CRS has incurred additional demurrage, storage and insurance costs totaling approximately \$250,000 because of these detainments. During the audit, employees at the CRS zonal office in Calcutta indicated that approximately 70 percent of their counterparts had no soy oil because of the oil detainment.

In addition, CARE had a 300 metric ton shipment of oil, valued at approximately \$225,000, that was detained at the Calcutta port for the same

reason from July 2001 to January 2002. CARE's much smaller quantity of oil was "containerized" (the individual cans were packed in trailers which need not be stored in the warehouse) and therefore incurred less storage cost at the port (\$6,300), but there were numerous other effects of the detention. For example, CARE feeding sites in the states of Orissa and West Bengal reported food outages in 2001 due to lack of oil.

This oil shortage also reduced the availability of a locally produced food used in the CARE feeding program. CARE collaborates with the state of Uttar Pradesh to use locally grown sugar to produce a ready-to-eat product called *panjeeri*, which is 25 percent sugar, 10 percent soy oil, and 65 percent corn soy blend. The *panjeeri* production facility in Uttar Pradesh was also affected by the oil shortage, operating at a reduced capacity in 2001, with numerous shutdowns lasting a week or more. Although the production facility briefly attempted to produce *panjeeri* without oil, feeding centers reported that children would not eat it, so production was halted. The shortage of oil caused food outages in about 25 percent (about 3,350 sites) of the CARE feeding sites in Uttar Pradesh for about twelve weeks in 2001.

However, ports other than Calcutta have not held up genetically modified food. Therefore, cooperating sponsors rerouted soy oil through the Vishakhapatnam port to avoid the problem in Calcutta, but additional costs arose from this. For example, the Vishakhapatnam port did not have adequate warehouse space to accommodate the additional oil it was receiving as a result of the diversion from Calcutta, so space in an additional warehouse had to be rented. Also, the Vishakhapatnam port is further away from some commodity destinations, so additional transportation costs may have been incurred.

Per USAID's Regulation 11, cooperating partners are responsible for ensuring prompt approvals for entry and transit in the foreign country and for obtaining all necessary import permits, licenses and other appropriate approvals for entry and transit of commodities.⁴ In addition, the GOI regulates importation of genetically modified products through its Genetic Engineering Approval Committee (GEAC). However, USAID/India and its food aid partners had not yet secured permission from the GEAC to import genetically modified food commodities, although a significant portion of the food aid – especially corn soy blend—is genetically modified.

Interest in genetically modified food is rather recent in India. Mission officials and management from the cooperating sponsors noted that although they have operated the Title II program in India for many years, this issue was not raised by the GOI until 2001, based on regulations issued in 1993. The news media also focused public attention on genetically modified food

⁴ 22 CFR Part 211 (USAID Regulation 11), Section 211.7, Arrangements for Entry and Handling in Foreign Country

brought into India in 1999 to aid victims of a cyclone, thus creating interest in the topic.

In response to this recently raised issue, Mission officials and management from the cooperating sponsors explained that they have begun to deal with the problem. They are working with the Agricultural Attache at the U.S. Embassy in New Delhi to explain American policy regarding genetically modified foods to the Indian government. USAID/India, CARE, and CRS, with concurrence of USAID/Washington and the U. S. Department of Agriculture, met with the GEAC to discuss the application process for interim and permanent approvals to import genetically modified Title II commodities. CARE and CRS applied to GEAC for interim approval in August 2001, and for a longer-term approval in October 2001. GEAC has not issued interim or longer-term approvals yet, but they have approved shipments on a case-by-case basis. The first shipments approved on a case-by-case basis, detained since April 2001, were released in January 2002.

Recommendation No. 4: We recommend that USAID/India establish an action plan to obtain all necessary approvals from the Government of India for the importation of genetically modified food commodities for the Public Law 480 food aid program in India.

Recommendation No. 5: We recommend that USAID/India, in consultation with legal counsel, the Cooperative for Assistance and Relief Everywhere and Catholic Relief Services, determine whether the additional storage and insurance costs totaling approximately \$256,300 associated with the detainment of commodity shipments can be recovered from the Government of India.

**Management
Comments and
Our Evaluation**

In response to our draft audit report, USAID/India provided written comments that are included (without attachments) in their entirety as Appendix II.

For Recommendation No. 1, the Mission indicated it filled the vacant staff position in April 2002.

Regarding Recommendation No. 4, the Mission provided an action plan to seek approvals from the Government of India for the importation of

genetically modified food commodities for the Public Law 480 food aid program in India, and noted that a five-year approval for importation of vegetable oil was recently obtained.

For Recommendation No. 5, the Mission provided an opinion from its Regional Legal Advisor supporting the conclusion, reached with CARE and CRS, that approximately \$256,300 in storage and insurance costs from detainment of commodity shipments is not recoverable from the Government of India.

Based on the above, final action has been taken on Recommendation Nos. 1, 4 and 5, and these recommendations are closed upon issuance of this report.

Regarding Recommendation No. 3, the Mission stated that it would work with CARE to provide training to village workers to strengthen their record keeping. A management decision has been reached for this recommendation, and it can be closed when the Mission provides evidence to USAID's Office of Management Planning and Innovation that it has implemented its planned actions.

The Mission accepted Recommendation No. 2 and stated that it would address it at a systemic and procedural level. The Mission also explained that "field realities of the Title II operating environment" created some of the exceptions noted in Appendix IV to the report. However, the Mission believed that requiring action on some of them would not be cost effective nor materially improve the program. Additionally, the Mission requested that we provide more specific information for some exceptions and modify or drop others. In instances where we agreed with the Mission's response and the additional information it provided, we modified our report accordingly. The four areas where we disagreed with the Mission's response are discussed below. This recommendation remains open pending agreement with the Mission.

CARE Findings

In response to the exception that 6 of 7 feeding sites did not maintain registers to indicate children's birthdays, the Mission explained that many families in rural India do not know a child's exact birth date, but only the closest month and year of birth. Although our testing found feeding sites with birth date records, we modified the report to say that the feeding sites did not indicate children's "ages" rather than "birth dates." In some cases, for example, instead of showing children as being older, the next year's registers recorded children as being younger than the previous year! Since age is the criteria for determining eligibility for the feeding program, registers should accurately record a child's age to the extent possible.

In response to the exception that different children were listed under the same name in some registers, the Mission noted that many children in rural India have the same name and are identified in the registers with the name of the mother/father. While including the parents' names was a practice at some feeding sites, it was not used at these sites. We believe that verifying the eligibility of beneficiaries can be made easier if the registers include the names of the parents, as well as the name of the child.

In response to the exception that repackaged commodities did not indicate that they had been donated by the United States, the Mission expressed concern about the village women's groups' ability to include this information on the instructional inserts they produce. However, the instructional insert mentioned in the finding was printed locally, and in the future could include the additional comment that the food was donated by the United States. Other sites visited during the audit had signs at the feeding sites (see photo, page 6) that stated that rations distributed there were donated by the United States, and this would also be a practical method of communicating the information in the situation cited in the finding.

CRS Findings

Regarding the Commodity Status Report and Recipient Status Report which reported zero quantities for the Rayagada counterpart and, instead, reported that counterpart's quantities under the Behrampur location code, the Mission noted that at the time the software was developed, the counterpart was located at Behrampur. Regarding the reported amounts of zero for 13 other counterparts, the Mission stated the actual quantities were captured at the executive level. Finally, the Mission stated that resolving the problem would entail altering functioning and effective software. We disagree that the software is functional and effective if the reports it produces do not accurately reflect activity at the local level, important information that the reports were apparently meant to capture and pass on. Updating the software to reflect the correct location codes will resolve this exception.

Scope and Methodology

Scope

The Regional Inspector General, Manila, audited USAID/India's Public Law 480 Title II activities in accordance with generally accepted government auditing standards. The purpose of the audit was to determine if USAID/India, together with its partners, monitored the food aid to help ensure that it reached the intended beneficiaries.

The system of internal controls used by the Mission and its cooperating partners consists of the policies and procedures used by CARE and Catholic Relief Services (CRS), including periodic reports they prepare, and field visits made by USAID, CARE, and CRS staff to storage facilities and feeding sites. We tested these components of the system of internal controls during the audit. We considered findings from reports prepared by the CARE Internal Audit Department, and CRS and CARE India staff in designing our tests of the system of internal controls. The audit covered fiscal years 2000 and 2001 and included food aid implemented by CARE and CRS. The audit did not cover Title II food aid implemented by the World Food Program. The Mission's Title II funding was \$117 million in FY 2000 and \$78 million in FY 2001.

We began the fieldwork at the offices of USAID/India, and CARE and CRS headquarters in New Delhi, during our first trip to India, from October 15 to November 6, 2001. We made a second trip on November 28 to December 12, 2001, during which we visited the CRS zonal office in Calcutta, then proceeded to the CRS counterpart and operating partner offices in the states of West Bengal and Orissa. We made the final visit to India from February 20 to March 21, 2002, during which we visited CARE state offices in Orissa, West Bengal and Uttar Pradesh. From each CARE state office we proceeded to block offices and to village feeding sites.

Methodology

To answer the audit objective, we began by reviewing applicable laws, regulations, USAID policy and guidance, and mission policy related to the objective. We also reviewed approved Private Voluntary Organization (PVO) program documents for the proposed controls over the movement of commodities and use of monetization proceeds and program income.

We then made our first trip to India and began our fieldwork, interviewing Mission staff and management about their site visits, and reviewing their reports regarding each site visit they made during the audit period. We discussed the

cooperating sponsors' Development Activity Proposals (DAPs), multi-year plans including financial information, with Mission officials to gain an understanding of their expectations of the cooperating partners. We also reviewed documentation regarding the Mission's latest Internal Control Assessment.

We visited the CARE and CRS headquarters offices in Delhi, where we interviewed each cooperating partner's management and staff. We discussed the organization and control systems for each program, including control over storage, physical movement, loss, monetization, and distribution of food. We also discussed design, review and approval of various distribution activities, including programs dealing with nutrition, food-for-work, education, orphanages and hospices.

In addition, we reviewed and discussed the following accounting reports, which each cooperating sponsor prepares, with the staff and management responsible for their preparation. We analyzed AERs (Annual Estimates of Requirements), documents that calculate the amounts of food commodities needed. We analyzed each partner's Annual Action Plan. We analyzed and tested each cooperating partner's Commodity Call Forward, a document submitted to obtain additional supplies of food. We also analyzed consolidated national reports: Recipient Status Reports, which are prepared by each partner to calculate the number of recipients receiving food in each program; Commodity Status Reports, which document commodity receipts and distributions; and Commodity Loss Status Reports, which document quantities of commodities lost in transit and storage. We tested supporting documentation for these three consolidated reports during our site visits. We also analyzed CARE and CRS Annual Reports, and Reports on Monetization.

During our second trip to India, we worked with CRS. We visited the CRS zonal office in Calcutta, which we had selected judgmentally, based on quantities of food used and proximity to ports, which we also wanted to visit. In addition, we reviewed the zonal portions of the consolidated national accounting reports mentioned above, and discussed the reports with zonal management and staff. We then judgmentally selected counterparts and operating partners and conducted site visits in the states of West Bengal and Orissa. We based our selections of counterparts and operating partners on types of programs at each location, when a reviewer from CRS or USAID last visited the location, the number of recipients at the location, and the location's distance from the zonal office, where reviewers are based. We worked with the zonal office internal review department and analyzed its reports of field visits made to the counterparts and operating partners we had selected for our site visits.

During the CRS site visits we tested inventories and related records at two counterpart offices in West Bengal and Orissa. We also tested support for the accounting reports mentioned previously. In addition, we inspected storage facilities. We then visited operating partners to further test support for the accounting reports, to inspect food storage facilities and test inventory records, and to observe food preparation and distribution.

During our final trip to India, we worked with CARE. We visited the CARE state offices in Orissa, West Bengal and Uttar Pradesh, which we had selected judgmentally based on numbers of recipients, numbers of feeding sites, and frequency of field reviews. We worked with the CARE state offices' management and staff, reviewing and discussing the states' portions of the consolidated national Recipient Status Reports, Commodity Status Reports, and Commodity Loss Status Reports.

We had selected block offices for our site visits previously, because CARE needed time to arrange the visits with Government of India (GOI) employees. We had judgmentally selected one block office in each of the three states, considering the number of feeding sites each block manages, and the block's distance from the state office. During the block site visits we tested records and interviewed staff and management. We tested each block's support for the accounting reports mentioned previously. We then visited seven feeding sites to test the original documents supporting the consolidated accounting reports, to inspect food storage facilities and test inventory records, and to observe food preparation and distribution.

We also visited commodity storage sites, including two port visits and five port storage facility visits, observing the unloading procedures and testing inventory records.

We visited one manufacturing facility which used locally grown food to produce a ready-to-eat product from Title II food. We evaluated the facility's records and inventory storage areas.

During our visits to CRS and CARE feeding sites, we observed school feedings and take-home ration food distributions. We tested records maintained at the feeding sites pertaining to attendance and graduation policies. We also interviewed beneficiaries.

**Management
Comments**

To: Bruce N. Boyer, RIG/ Manila

From: Walter North, Director, USAID/India

Subject: Draft Audit Report for the Audit of USAID-Financed Public Law 480 Title Food Aid Activities in India

Reference: Your transmittal memo dated June 19, 2002

Thank you for sharing the draft report on the Audit of USAID-Financed Public Law 480 Title-II Food Aid Activities in India. We appreciate the findings of the audit report. They will help in strengthening our Title II program.

We request you, however, to incorporate the following observations and modifications (elaborated at A, B and C) in the final report you issue:

A. Based on our comments below, we request closure of Recommendations Nos. 1, 4 and 5 on issuance of the final Report and acceptance of the Mission's management decision on Recommendation No. 3.

Recommendation No. 1: We recommend that USAID/India fill the vacant staff position in USAID's Office of Social Development.

This position was filled by the Mission on April 7, 2002 by appointing V. Ramesh Babu, Project Management Specialist in the Office of Social Development.

Recommendation No. 2: (See separate section)

Recommendation No. 3: We recommend that USAID/India work with Cooperative for Assistance and Relief Everywhere to develop training programs for its village workers.

Per CARE plans, during FY2002 over 26,000 government and Non-Government Organization (NGO) functionaries, of which about 9,800 are village level functionaries, will be trained. The Mission has taken a decision to strengthen the village workers' capacity by working with CARE/India to ensure that the trainings planned for village level workers incorporate elements that will specifically strengthen their record-keeping. Systematic capacity building workshops are being

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planned for CARE's Government Partnerships Officers (GPO) & Monitoring Officers (MO), to clarify their roles including aspects of commodity management and monitoring. The GPO's and MO's are the two members of Integrated Nutrition and Health Project District teams responsible to respectively program and monitor the commodity from the District to the Anganwadi Center (AWC) level. We expect these trainings to be complete by March 2003.

Recommendation No. 4: *We recommend that USAID/India establish an action plan to obtain all necessary approvals from the Government of India for the importation of genetically modified food commodities for the Public Law 480 food aid program in India*

Mission, CARE and CRS have undertaken the necessary steps (see Attachment I for detailed Action Plan) to seek approvals from the GOI for import of genetically modified Title II commodities. GOI has recently approved the import of refined vegetable oil for five years. With respect to other commodities, USAID, CARE and CRS will continue to work with relevant authorities in GOI. A final decision rests with the GOI.

Recommendation No. 5: *We recommend that USAID/India, in consultation with legal counsel, the Cooperative for Assistance and Relief Everywhere and Catholic Relief Services, determine whether the additional storage and insurance costs totaling approximately \$ 256,300 associated with the detainment of commodity shipments can be recovered from the Government of India.*

The Mission, in consultation with the PVOs and the Regional Legal Advisor has determined that the additional storage and insurance costs mentioned above are not recoverable from the GOI. A copy of the RLA's concurrence is attached. (Attachment II) Moreover, CRS's request to Kolkotta Port Trust (KPT) for refund of the demurrage costs has not been accepted.

B. We also request you to delete the following sentence from Recommendation No. 4 on page 12 (line 5 from below), which could convey a faulty impression:

‘Although the long-term effects of genetic modification on the consumer and the environment are unknown, the Government of India has instituted regulations that have had the effect of restraining the import of genetically modified food.’

The current wording may reflect an unintentional editing slip. Maybe the intention of this sentence was to suggest that there was no good reason for the GOI to restrain the imports. However, the way it reads now, someone might not infer that. Instead they might take this as an official statement by the USG that we don't know what the long-term health and safety implications of food with Genetically Modified Organisms (GMO) are for humans and for the environment and won't anytime soon.

After a full review, these foods have been found to be safe for human consumption by the USG. Moreover, since they have been released for human consumption in the United States, there have

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been no incidents of health problems which they occasioned. The current formulation should be clarified, perhaps saying something like the following:

‘Recently, it became clear that the GOI had instituted regulations requiring a scientific review before commodities with GMOs could be imported into India. Pending the outcome of a long standing GOI review of the safety of GMO soy oil & corn, cooperating partners have encountered difficulties in importing such products into India.’

C. Recommendation No 2: ‘We recommend that USAID/India ensure that the Cooperative for Assistance and Relief Everywhere and Catholic Relief Services correct the specific exceptions and weaknesses noted during our fieldwork (as detailed in Appendix IV).’ We accept this Recommendation and shall address it at a systemic and procedural level. However, we request altering and dropping certain exceptions reported (Annexure IV) as instances to support this recommendation.

Some of those instances reflect field realities of the Title II operating environment over which partners have little control. Reporting such as exceptions would mandate our actions on these issues. These actions would be neither cost effective nor materially improve the impact of the program. The Integrated Child Development Services (ICDS) infrastructure (including village level Anganwadi Centers) and functionaries are provided and funded by the GOI. ICDS staff are not directly reporting to either the Mission or CARE. This severely limits abilities to address and influence some of the conditions reported in the exceptions section.

More important, the exceptions are not material in terms of affecting program implementation and monitoring. For instance, it may be a fact that some children will come to a center for food but not to attend class. But this does not become a finding relating to the efficacy of our food distribution. Similarly, in an illiterate setting, it is remarkable that reasonable records indicating ages of children availing of the feeding are there. Perfect documentation is desirable but less than perfect documentation is not a finding since this does not materially compromise the program’s ability to reach the intended beneficiaries.

To be specific we request you to:

- a. Drop exceptions reported in Appendix IV at Bullet 3 (CARE/page 21), Bullet 4 (CARE/page 21), Bullet 5 (CARE/page 22) and lines 1 to 9 of Bullet 2 (CRS/page 22), and;**
- b. Elaborate and be more specific on exceptions reported at Bullet 1 (CARE/page 21, Appendix IV), and, Bullet 2 (CRS/ page 23, lines 3 to 5, Appendix IV).**

The detailed discussion follows below:

CARE (Appendix IV)

Bullet 1, line 4 to 7 at Appendix IV, page 21, states that ‘one of three state offices visited did not provide loss reports.’ It is not clear to the Mission and CARE as to which specific report was not provided. Are the auditors trying to state that the system of loss reporting exists but is not actually being implemented properly at the CARE/UP office? Regrettably there was no exit meeting at site or later in which the specific inadequacy or discrepancy was explained and relevant papers shared with USAID or CARE. Since this assertion disables us from resolving this finding, we **suggest that this specific finding be elaborated in the final report, so as to clearly specify corrective action required.**

Bullet 3, page 21, states that ‘six of the seven CARE feeding sites we visited did not adequately maintain attendance records by accurately counting the number of beneficiaries that attend classes and receive Title II rations’: This finding suggests that children received food even though they may not have attended classes. This may be true, but this is not a valid finding because the GOI’s ICDS program does not make attending classes a pre-condition for receiving food. A GOI directive dated Jan 11, 1990 states “children in the age group of 6 months to 6 years approaching an Anganwadi Center (AWC) for supplementary nutrition be provided such”. It may be a desirable linkage to make food an incentive for education but supplementary food cannot be denied to children who do not regularly attend pre-school classes, but may arrive for receiving the food supplement. Since the CARE, Title-II program supports the Government of India’s (GOI) ICDS, the relevant GOI guidelines need to be followed. We, therefore, request deletion of the above exception. A copy of the above mentioned GOI circular along with the cover page of the source document is attached (Attachment III).

Bullet 4, page 21: We respond to this in three parts, and request you to drop this entire bullet in view of our explanation:

1. “6 of 7 CARE feeding sites we visited did not maintain registers to indicate children’s birthdays, information that is essential for evaluating eligibility for feeding programs”.

In rural India, illiterate mothers often do not know the date of birth of their children. Generally a local events calendar is prepared for 5-6 years indicating the dates of all important festivals, events etc in the ICDS project area, to relate and ascertain the child’s closest birth month and year. To support this explanation, relevant text from the ICDS manual is attached (Attachment IV).

2. “We noted that different children are listed under the same names in some registers, children are listed with inaccurate ages in some registers.”

In the rural Indian context there are many children with the same name in a village which is generally popular (the name of a Goddess/God or some warrior or elderly persons of the family) and are identified in the registers with the name of mother/father. The parents’ names are also written in the registers. Also the practice of calling the child with pet names is very common and a formal

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name is given to the child only when s/he gets enrolled in the school. Therefore an overlap of different children with one name can not be avoided. We request that you please drop this exception.

3. ‘Some registers were unavailable’, Please provide the name of the specific registers not available, or else drop this sentence from the finding.

Bullet 5, page 22: This point has also been taken up in 2 parts as under:

1. “3 of 7 feeding centers we visited used storage areas that were not secure in that more than one person had access keys. The CARE Operating Manual’s Chapter 7 discusses storage and handling, and explains that the person responsible for the commodities should be the only person with a key to the storage facility.”

The above extract is quoted from the ‘Food Resources Manual’ issued by CARE, USA. This Manual sets forth standards and guidance, but it is meant to establish worldwide norms and should not in all particulars take precedence over alternative acceptable program operation practices of the GOI for commodity accountability. At each of the AWCs there are two persons (i.e. the Anganwadi Worker (AWW) and the Helper) who have been appointed to ensure management of the AWC functions. As per GOI guidelines (abstract at Attachment V) the Helper is responsible to handle the AWC functions, including feeding program management, in the absence of the AWW. Thus the keys can be kept by more than one person.

The ICDS program is supposed to be a community managed program and the GOI encourages community participation in its implementation and functioning. Please see “Attachment VI” with relevant text from the ICDS Manual, highlighting the role of local leadership, (i.e., local communities, Mahila Mandals [women’s groups]) in ICDS planning implementing and monitoring. In the three cases pointed out in the audit, the commodity was stored in the home of the village headman/local government representative or a respected member of the community. This is usual practice to ensure the security of the commodity when AWCs are considered insecure. Since the village houses are small and owner’s cannot dedicate one room exclusively to store Title-II commodities, some personal effects are also stored along with the food commodity. Sharing of the key by the house owners’, therefore, cannot be avoided. This is a field reality which is acceptable to the Mission, even though this practice may not be up to international standards/norms. We, therefore, request that this exception be dropped.

2. 1 of 2 feeding sites we visited that repackaged take-home rations included an instructional insert in the local language that did not mention that the food was donated by the United States. Regulation 11, Section 211.6 (c) requires that repackaged commodities be labeled with the USAID emblem and include a statement in the local language saying the food was donated by the people of the United States.

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The ‘repackaging’ referred to is actually a form of distribution of Title-II commodities innovatively developed by the local women’s group to help the AWW in distributing this fortnightly Take Home Rations to mothers and children. Instead of weighing/measuring rations on the day of the distribution, members of the women’s group pre-weigh the ration and put it in small polythene bags which they buy from their own funds. The time saved on the Nutrition and Health day on account of pre-weighing commodities is used for health activities and nutrition education with the Auxilliary Nurse Midwife (ANM), who is able to visit the village only once a month.

It is not possible to print the source of supply on these carry bags in rural Indian villages due to the lack of facilities. Also the local women’s groups do not have funds to manage the additional expenses required to take up the printing work as suggested. Keeping the feasibility and viability of the printing at the village level in mind and in view of the fact that this form of distribution is not ‘repackaging’ and is not in violation of the quoted Reg II section, this exception should be dropped. Failing this, the pre-weighing for distribution might have to be stopped, meaning less time for village women with the health functionary, who has limited time in each village.

CRS (Appendix IV)

Bullet 2, page 22/23:

1. “Reviews of CRS Recipient Status Reports and Commodity Status Reports and their supporting documents identified errors in accounting.”

CRS explains that the CSR & RSR report tested by the audit team was for the Rayagada counterpart. The Rayagada counterpart, at the time CRS’ CSR-RSR package was developed, was located at Behrampur. Although the same counterpart is now located at Rayagada, it is identified by the package under the code for Behrampur. Rayagada data listed under the Behrampur code was also shown to the auditors by CRS.

Under two counterparts (called Executive Counterparts) – the Dimapur and Shillong counterparts, there are 13 extension counterparts whose data is captured under the Executive Counterparts. This is as per CRS food accounting system. Therefore, the 13 extension counterparts were showing zero information.

If this observation is reported as a finding, resolving it would entail altering functional and effective software. We therefore request you to delete this exception.

2. “1 of the 2 Operating Partners visited by the Auditors that had program income did not maintain a log of proceeds from sales of empty containers.”

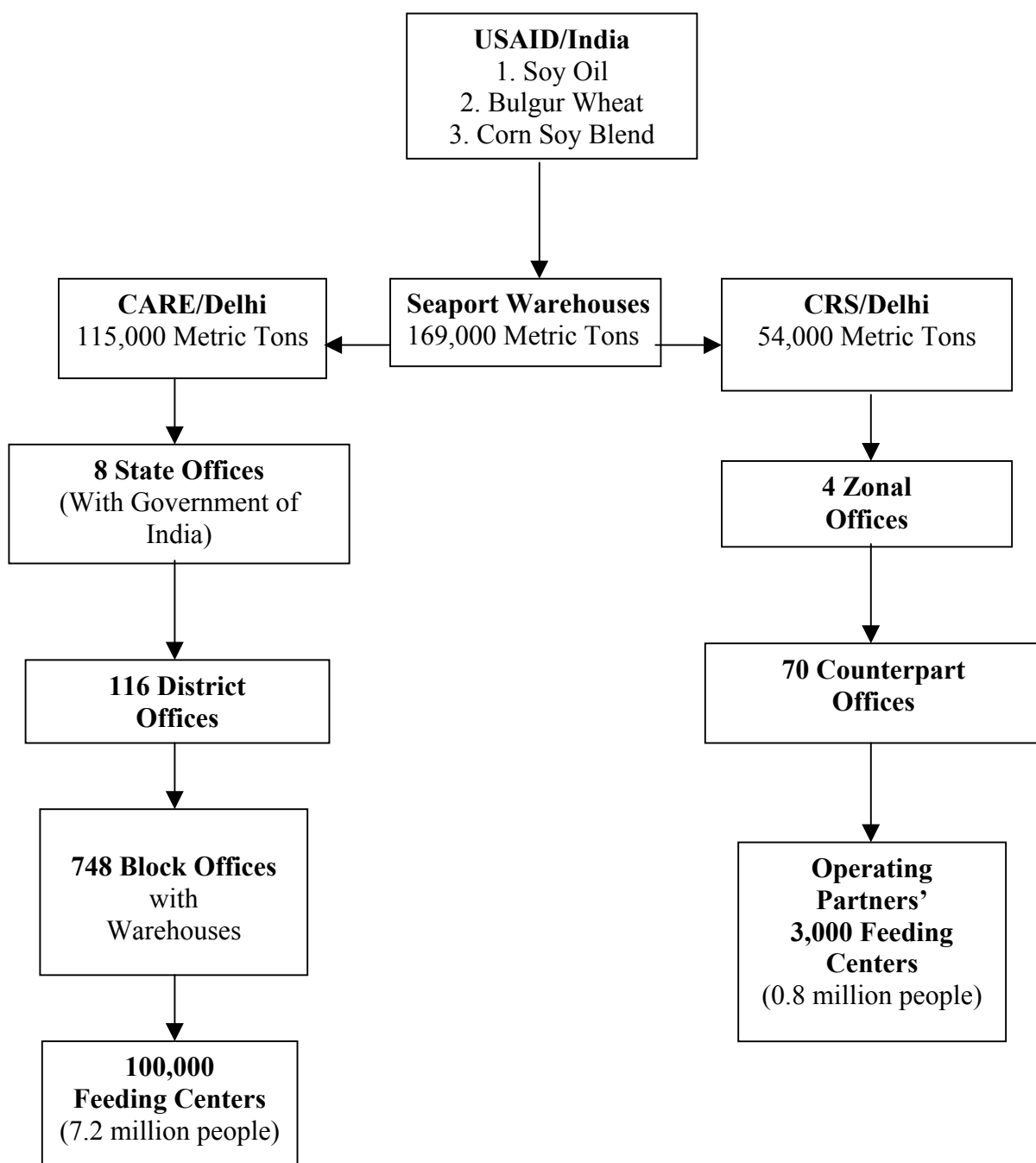
According to CRS, the auditors visited one Safe Motherhood and Child Survival (SMCS) Operating Partner (OP) and another Other Child Feeding (OCF) OP at Rayagada. One of the two visited, (OCF) in Gunupur under Rayagada counterpart, does not collect any contributions or sell their

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empties to generate funds and therefore they do not maintain any accounts for program generated funds. In view of the above response from CRS, the finding needs to specify which of the two Partners is being referred to.

Attachments : as above

**FOOD DISTRIBUTION CHAIN FLOW CHART
FOR TITLE II FOOD AID IN INDIA**



**Exceptions
Encountered
During Site
Visits****CARE**

- One of the three state offices visited was unable to provide a complete list of its feeding sites. Regulation 11, Section 211.10(a) requires Cooperating Sponsors to maintain records on distribution of commodities (e.g., distribution sites). One of three state offices visited did not provide its loss reports that were used to prepare a national consolidated loss report. Regulation 11, Section 211.10(b) requires Cooperating Sponsors to prepare reports about the distribution of commodities (e.g., Loss Reports). A review of inventory records maintained at the only manufacturing facility visited, in Uttar Pradesh, indicated inventory write-offs were made without supporting documents. Regulation 11, Section 211.6(a)(1) requires commercial facilities that process commodities to fully account for all commodities and maintain adequate records.
- Two of the three state offices visited provided us with worksheets for preparing their Recipient Status Reports. Attempts to trace the information on those reports to supporting documents in the block offices identified 38 of 360 entries on the West Bengal worksheet that did not agree to supporting documentation prepared at the feeding sites. 80 of 180 entries on the Uttar Pradesh worksheet did not agree to the supporting documentation. Regulation 11, Section 211.10(b) requires Cooperating Sponsors to report the distribution of commodities (e.g., Recipient Status Reports).
- Six of seven CARE feeding sites visited did not maintain registers accurately indicating children's ages, information that is essential for evaluating eligibility for feeding programs. In addition, different children are listed under the same names in some registers. At two feeding sites, some registers were unavailable. The feeding site at Hirazole was unable to provide any registers (e.g., children, pregnant women, lactating mothers, census) maintained by the previous village worker. The feeding site at Ganja Sidhartur was unable to provide the register of 3-6 year olds for the months of May 1999 to May 2000, and the current registers for pregnant and lactating women were unavailable. Regulation 11, Section 211.5(f) requires cooperating sponsors to determine the eligibility of recipients.

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- One of two feeding sites visited that repackaged take-home rations included an instructional insert in the local language that did not mention that the food was donated by the United States. Regulation 11, Section 211.6(c) states that repackaged commodities should be labeled with the USAID emblem and include a statement in the local language saying the food was donated by the people of the United States.
 - Observations of food preparation at the seven feeding sites identified one site that used the wrong amount of oil (400 ml rather than the 488 ml calculated for that day's ration) in preparing that day's food. Ration quantities are defined in the CARE Development Activity Proposal. One in seven of the feeding sites used oil that had been contaminated with ants. The CARE Operating Manual's Chapter 7 discusses storage and handling, and offers advice on how to deal with insect infestations. In addition, Regulation 11, Section 211.8 discusses commodities unfit for human consumption.

CRS

- One of four CRS storage facilities visited had damage: a broken window that potentially exposed commodities to rain and theft. The CRS Counterpart Manual discusses handling and storage procedures for commodities, and requires that storage facilities be constructed to avoid rain damage and losses by pilferage. One of the four storage facilities had bags of bulgur wheat stored on plastic sheeting on a dirt floor. The CRS Counterpart Manual requires floors made of brick or concrete, and that bulgur wheat be stored on wooden pallets.
- Reviews of the CRS Recipient Status Reports and Commodity Status Reports and their supporting documents identified errors in accounting. Testing of one zonal Commodity Status Report and one zonal Recipient Status Report indicated that both reports incorrectly listed all information as zero for one of the two counterpart locations tested. The zonal Commodity Status Report listed a total of 13 of the 36 counterparts with all information as zero. The zonal Recipient Status Report listed a total of 13 of the 35 counterparts with all information as zero. The "zero" reporting resulted from a computer glitch at the Zonal Office. The national consolidating Recipient Status Report contained information about Food-For-Work recipients that did not agree with the zonal Recipient Status Report. Testing of two operating partners that had program income, Pragati in Rayagada, and Hayden Hall in Darjeeling, indicated the operating partner in Pragati

did not maintain a log of proceeds from sales of empty containers. Regulation 11, Section 211.10(b) requires Cooperating Sponsors to report the distribution of commodities (e.g., Commodity Status Reports and Recipient Status Reports) and generation of program income (e.g., sales proceeds).

➤ At one of three CRS feeding sites visited, the individual responsible for storage of commodities was away from the site for two weeks and had not left the keys or records. The CRS Counterpart Manual discusses procedures for leaves of absence, and also requires that feeding sites and records be available for review by the counterpart and USAID.

**List of
Acronyms
Used in the
Report**

AER – Annual Estimate of Requirements

CARE – Cooperative for Assistance and Relief Everywhere

CRS – Catholic Relief Services

DAP – Development Activity Proposal

FCI – Food Corporation of India

GEAC – Genetic Engineering Approval Committee

GOI – Government of India

ICDS – Integrated Child Development Services

OSD – USAID/India's Office of Social Development

PVO – Private Voluntary Organization

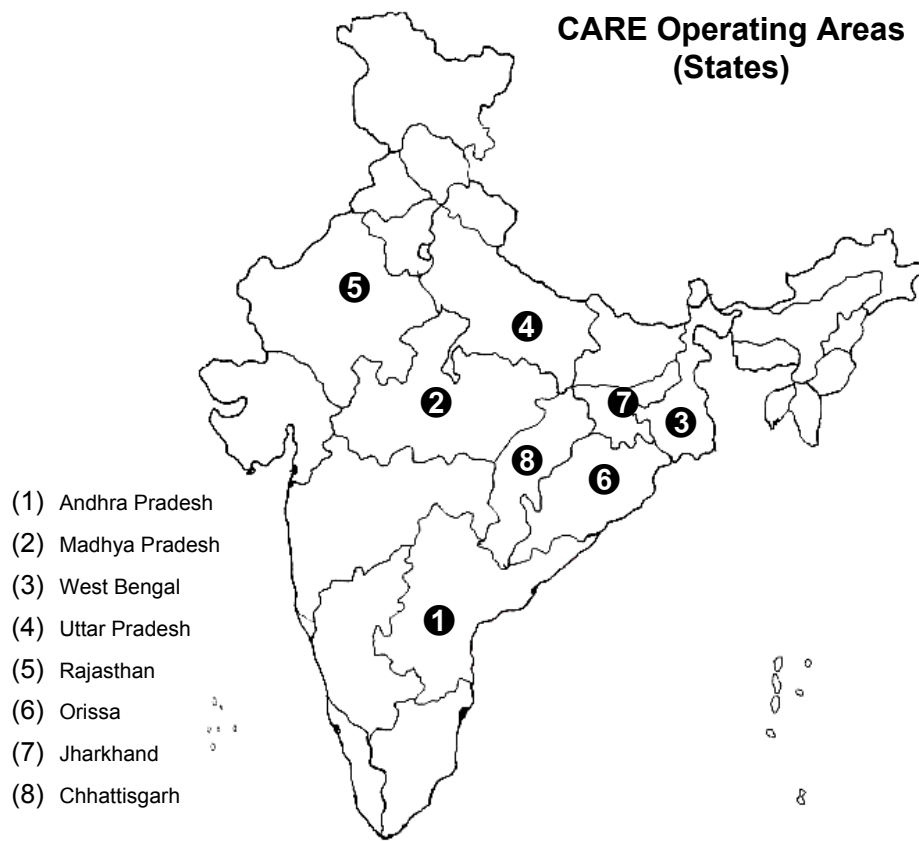
**CARE
and
CRS**

The Title II program in India is being implemented by two major cooperating sponsors: the Cooperative for Assistance and Relief Everywhere (CARE) and Catholic Relief Services (CRS), two U. S. Private Voluntary Organizations. It is the largest Title II program in the world, and distributes nearly all its food directly to beneficiaries rather than selling (“monetizing”) it to raise funds. The Government of India also makes a major contribution to the Title II program by funding all services and personnel of its Integrated Child Development Services (ICDS) program and the infrastructure for the CARE program, as well as in-country transportation and storage costs for all Title II commodities.

CARE oversees the supplementary nutrition component within the Government of India’s ICDS program in selected areas of eight states (see map below). This program uses Title II rations to enhance participation in health programs at village centers.

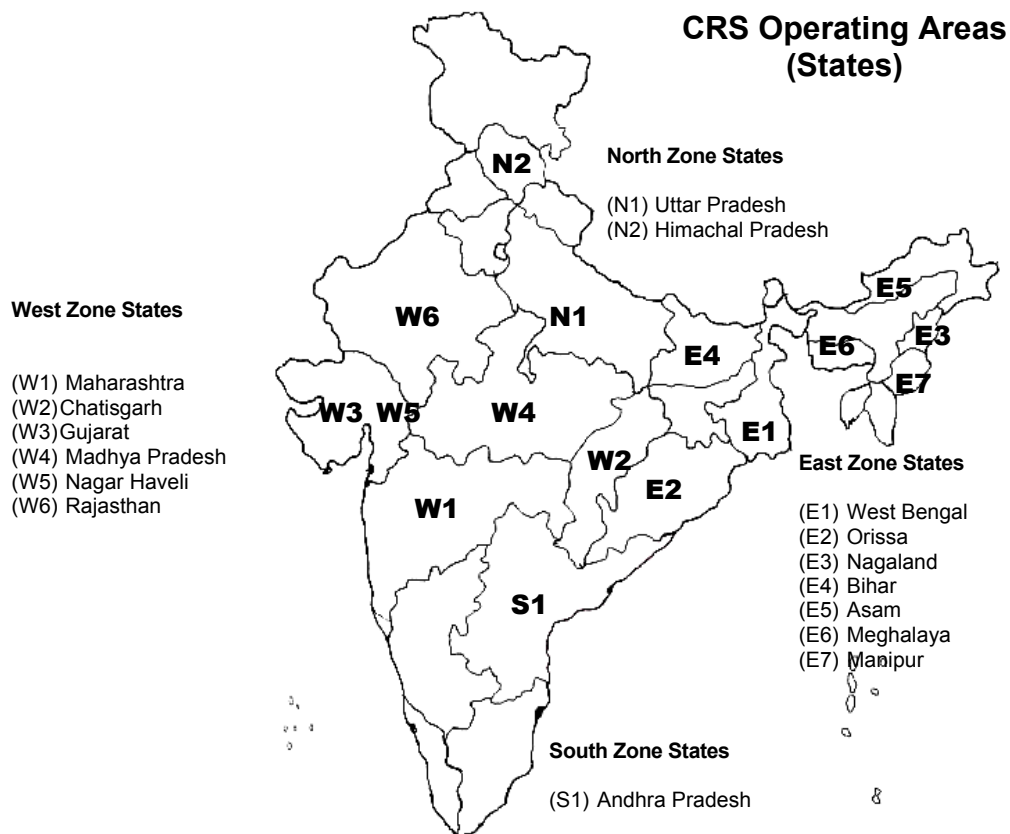
For administrative purposes, CARE’s program is divided into states, districts, “blocks” and feeding centers. The program has about 100,000 feeding centers targeting about 7 million people including pregnant women, nursing mothers and children between the ages of six months and six years.

For an illustration of the eight states of India in which CARE manages feeding centers, see the map on the next page.



This map illustrates the states of India in which CARE manages feeding centers. CARE's organization includes eight state offices and manages about 100,000 feeding centers.

Although CARE works with the Government of India, CRS works through private partners and social service organizations. The CRS program is divided into four regional zones (see map below) and is implemented through counterpart organizations. These counterparts in turn distribute food to operating partners who use the food in four types of programs: health, food-for-work, education programs, and humanitarian activities in orphanages and hospices. The CRS program has about 3,000 feeding centers targeting about 800,000 people (Appendix III summarizes how food aid is distributed in India by CARE and CRS.)



This map illustrates the states of India in which Catholic Relief Services manages feeding centers, grouped by region. CRS has divided the country into north, south, east and west regions, and operates about 3,000 feeding centers.

Recognition

RIG/Manila appreciates the cooperation and assistance of the Mission's Office of Social Development (OSD) during the audit. Special thanks go to Ms. Ashi Kathuria, Ms. Mamta Varma, Mr. S. Chandrasekar, and to OSD Director Ms. Carla Barbiero. We are also grateful to CRS India's Will Lynch and CARE India's Dr. A. K. Sen, Mr. Mohan Singh, and Mr. Surojit Chatterji and their employees for their assistance during our site visits.